Making auditors more accountable

SUDIPTO DEY

British regulator Competition and Markets Authority's recent recommendations to check the dominance of Big Four audit firms — Deloitte, EY, KPMG and PwC — in the UK market has stirred the hornet's nest in the Indian audit fraternity.

Auditors are divided over one of the key recommendations to make joint audits mandatory for certain section of companies. While smaller and mid-sized audit firms are in favour of the move, larger firms and big corporates, expectedly, do not see any merit in the measure.

According to Girish Vanvari, founder, Transaction Square, joint audits are necessary to create checks and balances. "This can lead to upskilling of the audit profession through mutual learning," he adds.

Jamil Khatri, partner, BSR & Co, part of the KPMG network, however, is quick to point out that the requirement for mandatory joint audits in India has been considered on several occasions in the past. "After due deliberations, Indian regulators have decided not to mandate joint audits."

Vishesh C Chandiok, CEO, Grant Thornton India, does not see any issue with India adopting a UK-style non-Big Four mandatory joint requirement for a select group of companies. Experts are also divided on the moot question on whether joint audit enhances the audit quality and corporate governance. Also, what is needed is greater independence to auditors, feel many in the profession.

"One of the ways could be the maintenance of panel of auditors by SEBI/MCA and allotment of audits in respect of public interest entities by either of the two regulators based upon objective criteria," says Amarjit Chopra, former president of ICAI.

Experts point out that the Indian regulatory framework already includes several safeguards to prevent conflict of interest between audit and non-audit work. The Companies Act specifically prohibits certain non-audit work for audit clients. Further, all non-audit work needs to be approved of by the independent Audit Committee. Similarly, recent Sebi regulations require disclosures of non-audit fees paid to the auditor.

However, Chopra is of the view that the way a few of the multinational accounting firms and certain other audit firms have gone about to earn hefty fees for non-audit services by routing such payments through the consulting companies makes the entire law redundant.

"The pressure on the auditor to market non-audit work for the firm can lead to conflicts and loss of independence," says Vanvari.

The fraternity, however, feels that there is sufficient oversight of auditors with the presence of the Quality Review Board and the recently functional, National Financial Reporting Authority (NFRA). Most favour giving time to the NFRA, the independent audit regulator, to get its act in place.

Yogesh Sharma, partner and head of audit and assurance, MSKA & Associates, which is part of the BDO Network, stresses the need for addressing the disconnect that exists between the capital market and the role played by a statutory auditor.

"We need a larger investment in technology to support audit processes," says Shailesh Haribhakti, a chartered accountant and tax expert. The quality can also be enhanced by sharing sensitive information, he adds.

PUTTING A CHECK ON THE BIG FOUR

Key recommendations of the UK's Competition and Markets Authority:

- Large companies to hire two statutory auditors, including a non-Big Four firm
- Strengthen the role of audit committees along with greater oversight of the audit process
- Big Four firms be split operationally, between audit and consulting businesses, to reduce conflicts of interest

Does presence of multiple statutory auditors work for India?

- India has a legacy of joint audits. Though not mandatory, most public sector banks, insurance companies and several public sector enterprises have two or more auditors
- As many as 33 of top 250 BSE-listed firms have two or more auditors (*BS Research Bureau*). Sample this: SBI has 15 statutory auditors; BHEL has eight; NTPC has seven; ONGC has six, PNB has five; BoB, Canara Bank, Central Bank, IOC, Indian Bank and Power Grid Corporation have four each; Reliance Industries, Reliance Capital, Reliance Infrastructure and Reliance Power have two each
- The Big Four — which operate through a network of firms — account for 1/3rd of the audit fee sweepstakes in 1,600-odd NSE listed companies
- Despite the introduction of auditor rotation in the Companies Act 2013, Big Four network firms continue to dominate audit accounts among the top 500 market cap firms